Association of British Insurers
Principles of Remuneration 2013

November 2013

The Association of British Insurers (ABI) has issued its annual update of the executive remuneration guidelines for listed companies.

The ABI supports the guidance on the new reporting regulations produced by the GC100 and investor group and the foreword to the guidelines states that the new guidelines should be viewed in conjunction with this guidance.

The ABI's Institutional Voting Information Service (IVIS) will continue to use its colour coding system and will produce a separate conclusion and status for the policy report and the annual remuneration report which will be colour coded separately.

Issues which are likely to result in an amber or red top include:

- Remuneration structures which are not aligned with the ABI principles.
- Lack of detail in the policy report – companies should consider the GC100 guidance and ensure sufficient detail is included.
- Policies drafted with overarching discretion or provisions which are considered to be too widely ranging, particularly with no clear explanation.

The structure of the guidance has not changed since last year and remains principles based supported by more detailed guidance in five key areas of executive remuneration (the role of shareholders, the role of the board and directors, the remuneration committee, remuneration policies and remuneration structures). As last year, there is an appendix covering practical aspects of the new reporting requirements.

Key changes

Clawback and malus

- The principle relating to remuneration structures includes some clarification around the definition of clawback and malus provisions. Previously the guidance encouraged the inclusion of provisions allowing companies to implement clawback or malus arrangements. This was not defined. The guidance now encourages provisions that allow the company, in specified circumstances, to forfeit all of part of a bonus or long term incentive before it has vested and been paid ('performance adjustment' or 'malus') and to recover sums already paid ('clawback').

- It is acknowledged that it may be appropriate to apply a performance adjustment, or malus, in a broader range of circumstances than clawback.

- The circumstances in which performance adjustment and clawback can be implemented should be agreed and documented before awards are made.

- Committees should review the circumstances in which the provisions can apply, ensure they are appropriate and consider the enforcement power they have to implement them.

- The circumstances in which these can be applied should, in each case, be disclosed.

Executive shareholdings

- Previously the guidelines stated that shares could only count towards the shareholding guidelines if they were completely unfettered.

- The guidance has been revised to state that shares may count if vesting is not subject to any further performance conditions or other conditions such as continued employment. Shares which are vested, but remain subject to a holding period and/or clawback, may count towards the holding requirement.

Performance on grant

- The guidelines previously stated that shareholders generally do not favour plans where performance is measured prior to grant and where this is considered appropriate it should be carefully justified and accompanied by genuinely long holding periods and significant shareholding requirements. The guidance has been expanded on this point.

- There should be clear disclosure, in advance, of the performance required, and achieved, to justify the grant of awards.

- Awards that are not subject to future performance or other conditions (other than clawback or malus) are expected to be significantly lower than under long term plans subject to such conditions.

- The use of a measurable financial performance underpin over the holding period should be considered.

Appendix 1 – The new reporting and voting regime

The Appendix confirms that the ABI support the GC 100 guidance in relation to the new reporting requirements. The appendix highlights specific views on six practical aspects of reporting:

- In normal circumstances the ABI expect the policy report to be voted on every three years and not on an annual basis, which will help ensure long term alignment of remuneration and business strategy.

- Again in normal circumstances, the ABI expect the policy to take effect immediately after approval on the basis that policies which would take effect only at the start of the following year may be set too far in advance for meaningful engagement with shareholders.

- Shareholders would prefer the policy report to be included in the remuneration report every year.

- Although the legislation allows for companies to not disclose performance targets for reasons of commercial sensitivity, shareholders only expect this provision to apply exceptionally and with clear justification.

- Companies should not just seek to comply with the reporting requirements but to provide a full and clear explanation of decisions made by the committee and the reasons for these.

- Shareholders recognise the need for flexibility in the recruitment policy but will not support excessive limits and will expect any significant differences between normal policy and the recruitment policy to be clearly justified.

The full guidelines can be found at:

http://www.ivis.co.uk/ExecutiveRemuneration.aspx

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